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DANIEL J. EVANS
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Washington State Liquor Control Board

Olympia, Washington 98504

February 27, 1975

Mrs. Jo Garceau
Special Assistant - Personnel &
General Government
Office of the Governor
Legislative Building
Olympia, Washington 98504

Dear Jo:

This is a follow-up to Jim Hoing's phone call concerning your inquiry on A. Ludlow Kramer's memo which accompanied the wine bill, S.B. 2626.

Behind Kramer's words and questionable figures is the wine lobby's objective to control 100 percent of the wine market. The payoff would be a revenue loss of more than \$2.3 million a year, of which \$1.3 million a year would be transferred from the public treasuries to the pocketbooks of the wholesalers and grocers.

If the move to take the state out of the wine business is successful, the consumer will pay higher prices for wine. He will lose revenue and pay higher taxes to make up for the loss of that revenue.

COMPARATIVE SHOPPING FOR WINES**

	State Liquor Store	Seattle Supermarket	Portland Supermarket	Northern California Supermarket
1 Fifth Almaden Cabernet Sauvignon	\$2.45	\$3.19	\$3.25	\$2.89
1/2 Gallon Almaden Grenache Rose	3.40	4.37	3.95	3.98
1 Fifth Christian Brothers Chablis	1.80	2.25	2.15	2.15
1 Fifth Christian Brothers Ruby Port	1.75	2.25	2.09	2.10
1 Fifth Gallo Faisano	1.05	1.29	1.19	1.19
1/2 Gallon Gallo Thunderbird	2.50	3.15	2.85	2.45
1 Fifth Italian Swiss Colony Burgundy	1.15	1.45	1.59	1.39
1/2 Gallon Italian Swiss Colony Rhineckeller	2.25	2.93	2.59	2.29
1 Fifth Paul Masson Gamay Beau	2.55	3.29	3.20	3.00
1/2 Gallon Guild Tavola	2.15	2.69	2.45	2.09

Prices in Washington and California are subject to General Retail Sales Tax at checkout counter.

**Sources: Washington State Liquor Control Board Records, January 1, 1975
Northwest Merchandising Service, Bellevue, Washington, December 31, 1974
Northwest Merchandising Service, Portland, Oregon, January 7, 1975
BIN Merchandiser of Northern California, San Francisco, California,
January 1, 1975

LJQ 906-18; 6-74; 10M.

MEMO TO EDITORS:

We have received a number of questions concerning the possible impact of SB 2626—the wine lobby's effort to take the state out of the wine business. This letter to Jo Garceau in the Governor's office will help with your reporting and analysis of the issue.

Doug Alexander
Information Officer

PLAINTIFF'S
EXHIBIT

CASE
NO. CV04-0360P

EXHIBIT
NO. 051

WSA03738

TX051_001

February 27, 1975

The wholesaler as the middleman, and his pricing methods are the major causes of the differences between supermarket and liquor store wine prices. In 1973, the Board standardized its wine markup* with that of distilled spirits at 45.9 percent or a margin* of 31 percent. However, the comparison of the pricing methods, attached, used in the private sector before and after the wine tax law went into effect, shows clearly that:

a. Wholesalers pocketed tax savings generated by the tax revision law, rather than passing them along to the retailer or the consumer. By contrast, the Board passed along the tax savings to the consumer.

b. Wholesalers utilized the new 75 cents-per-gallon tax as part of their base cost and put their markup on both the cost of the wine and the state tax. This pricing maneuver cost the consumer \$1.7 million in the first fiscal year after the wine tax bill was enacted, and will be a continuing cost thereafter.

The Board's pricing method passed the state tax through to the consumer without taking any profit on it.

c. The private sector could inflate the price of wine to whatever the traffic will bear if it did not have to compete with lower prices in state liquor stores.

The history of the wine lobby speaks for itself. The California Wine Bill in 1969 benefited the wine wholesalers, importers and retailers at the expense of Washington fruit growers, wineries and distillers. The wine tax bill of 1973 benefited the wine wholesaler to the tune of a \$1.7 million windfall profit. The state lost \$1.7 million in revenue for one year.

In the final analysis, the "free enterprise system" advocated by the wine lobby is a smokescreen for another rip off: The consumer will pay more. The state will lose revenue. The taxpayer will make up the loss in revenue. And we the people will be one step nearer to losing state control of liquor.

Sincerely,


Douglas G. Alexander
Secretary to the Board

DGA:cm

*Markup and margin are often confused. Both are methods of computing gross profit:

Markup is a percentage of delivered cost. EXAMPLE: Delivered cost is \$50. A markup of 50 percent on the delivered cost produces a gross profit of \$25. This added to the cost makes the selling price \$75.

Margin is a percentage of selling price. EXAMPLE: Delivered cost is \$50. Selling price is \$75. The \$25 difference is gross profit or margin. The margin of \$25 is 33-1/3 percent of the selling price.

In the attached examples the Board's markup of 45.9 percent is a margin of 31 percent.

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BOARD - PRIVATE SECTOR PRICING METHODS

BEFORE 1973 WINE TAX BILL ENACTED

	Example 1 ISC-Pink Chablis- $\frac{1}{4}$ Gal		Example 2 Gallo-Thunderbird-1/5th	
	Liquor Store	Supermarket	Liquor Store	Supermarket
Price FOB Winery	1.042	1.263	.513	.540
Freight	<u>.116</u>	<u>.116</u>	<u>.050</u>	<u>.050</u>
Landed cost	1.158	1.379	.563	.594
Board/wholesaler markup (margin)	.628	.319	.310	.154
26% Sales tax	.464	<u>.442</u>	.227	<u>.193</u>
Sale price to Retailer		2.14		.94
Retailer's Markup (margin)		<u>.71</u>		<u>.31</u>
Shelf Price to consumer	2.25	2.85	1.10	1.25
Retail Sales Tax - King County		<u>.15</u>		<u>.07</u>
Consumer's total cost	2.25	3.00	1.10	1.32
Savings to consumer	.75		.22	

BOARD - PRIVATE SECTOR PRICING METHODS

AFTER WINE TAX BILL July 1, 1973

	Example 1 ISC-Pink Chablis- $\frac{1}{4}$ Gal		Example 2 Gallo-Thunderbird-1/5th	
	Liquor Store	Supermarket	Liquor Store	Supermarket
Price FOB Winery	1.042	1.213	.513	.520
Freight	<u>.116</u>	<u>.116</u>	<u>.050</u>	<u>.050</u>
Landed cost	1.158	1.329	.563	.570
Board markup (margin)	.567		.287	
75¢ gallon tax on purchase	.375	<u>.375</u>	.150	<u>.150</u>
Landed cost plus tax		1.704		.720
*Wholesaler markup (margin)		<u>.436</u>		<u>.217</u>
Sale price to retailer		2.14		.94
Retailer markup (margin)		<u>.71</u>		<u>.31</u>
Shelf price to consumer	2.10	2.85	1.00	1.25
Retail Sales Tax-King County	<u>.11</u>	<u>.15</u>	<u>.05</u>	<u>.07</u>
Consumer's total cost	2.21	3.00	1.05	1.32
Saving to consumer	.79		.27	

*Wholesalers realized a windfall profit of \$1.7 million in fiscal 1974 and annually thereafter by including tax in their markup base. This arbitrarily inflated wine prices to the retailer who added his markup (margin) and passed the increase to the consumer.

IMPACT OF 1969 WINE BILL:

WINE GALLONS SOLD IN STATE

<u>Year</u>	<u>Board</u>		<u>Wholesalers</u>		<u>Total</u>
1968	2,205,823	56%	1,705,071	44%	3,910,894
1969	2,519,311	58%	1,819,311	42%	4,338,622
1970	1,649,487	25%	5,010,241	75%	6,659,728
1971	1,429,607	22%	5,194,577	78%	6,624,184
1972	1,379,462	19%	5,783,784	81%	7,163,246
1973	1,406,618	19%	6,184,199	81%	7,590,817
1974	1,707,162	21%	6,313,200	79%	8,020,362

IMPACT OF 1969 WINE BILL:

LICENSES AND STATE WINE PRODUCTION

	<u>Pre-Wine Bill</u> <u>1968</u>	<u>Post-Wine Bill</u> <u>1974</u>
Wineries licensed	9	6
Wineries licensed as distillers	6	2
Wine importers	0	113
Wholesalers licensed	120	122
Wine retailers licensed	2,122	2,377
State Wine production (Gallons)	2,610,890	1,059,620